View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Middlesex University Research Repository

Middlesex University London

Middlesex University Research Repository

An open access repository of

Middlesex University research

http://eprints.mdx.ac.uk

Grahl, John (2005) Absurde statut de la banque centrale. Le Monde diplomatique . pp. 4-5. ISSN 0026-9395

Available from Middlesex University's Research Repository at http://eprints.mdx.ac.uk/1271/

Copyright:

Middlesex University Research Repository makes the University's research available electronically.

Copyright and moral rights to this thesis/research project are retained by the author and/or other copyright owners. The work is supplied on the understanding that any use for commercial gain is strictly forbidden. A copy may be downloaded for personal, non-commercial, research or study without prior permission and without charge. Any use of the thesis/research project for private study or research must be properly acknowledged with reference to the work's full bibliographic details.

This thesis/research project may not be reproduced in any format or medium, or extensive quotations taken from it, or its content changed in any way, without first obtaining permission in writing from the copyright holder(s).

If you believe that any material held in the repository infringes copyright law, please contact the Repository Team at Middlesex University via the following email address:

eprints@mdx.ac.uk

The item will be removed from the repository while any claim is being investigated.

After the NO votes

Europe’s inflexible bank

The European Central Bank seems accountable to no one and yet imposes punitive financial regimes on both old and new members of the EU. This has done nothing for growth or employment.
by John Grahl

IN THE member states of the European Union, the alternation of parties in government can sometimes reverse unsuccessful interventions and legislation, or repeal them. But in the EU itself the past is always *acquis*, to be affirmed and protected against criticism, however justified that criticism. The control of monetary policy by the European Central Bank (ECB) is insulated from all political control.

Long before this regime came into force critics of every political orientation pointed out its dysfunctions. The structures were deeply undemocratic, depriving the elected, at both national and EU level, of any purchase on macroeconomic policies. Its priorities and objectives were unbalanced, so the ECB pursued price stability regardless of consequ-ences in unemployment, financial distress or disorganisation of the productive system.

Budgetary policies within the stability pact sacrificed every other goal to meet the targets for public sector borrowing. The methods of the ECB, an exact copy of those developed in different circumstances by the Bundesbank, were said to be of guaranteed efficacy, regardless of the evidence. There was a dogmatic insistence on the value of monetary aggregates as a guide to policy, a decade after these indicators had been abandoned as useless by other central banks. Six years of experience with monetary union has confirmed every criticism, yet the whole design remains sacrosanct to official Europe.

Over the past four years the average annual growth rate of the EU has been about 1.5%, much less than was achieved in the late 1990s and less than half that envisaged in the Lisbon strategy (1). The level of economic activity is not enough even to stabilise unemployment, which has risen in the 15 old member states from 7.4% in 2001 to 8.1% in 2004. Although slightly higher growth rates have been achieved in the new member states, they are struggling with much higher rates of unemployment: 14.4% over the past four years (2).

The unvarying response of the ECB to these problems is to call for more structural reforms: more wage and price flexibility, more labour mobility. After the French and Dutch referendums it is more difficult to use an inflationary threat to justify the insistence on labour market flexibility; the threat of globalisation is invoked to justify the same measures - deregulation, pressure on the unemployed, outsourcing by public sector and large private sector employers. But on a global basis eurozone economies are performing well. In 2004 only export markets were dynamic enough to sustain a rapid growth of output. Internal markets, particularly for investment goods, stagnated or contracted.

If the stubborn search for flexibility, central to European economic policies for more than 20 years, could resolve the problem of unemployment in the EU, it would have done so by now. Together with persistently high unemployment, neoliberal labour market measures have reduced the share of wages in EU GDP from a peak of 73.4% in 1962 to 69.2% in the 1990s and a record low of 68% in 2004. The corresponding huge increase in profits, from less than 25% to almost 33% of GDP, strongly reinforced by taxation policies favourable to capital, has failed to produce the promised investment: in 2000-04 investment within the 25 rose only by an average 0.5%, while in the eurozone it decreased (-0.2% average); 2004 was the first year with any increase in investment (+3.2%) (3).

Misunderstanding US policies

Across a wide range of economic questions, EU leaderships are almost slavishly deferential to the United States. The entire Lisbon Agenda, with its risible ambition to make Europe "the easiest and cheapest place to do business in the world", was inspired by an uncritical belief that the US stock-market boom marked the emergence of a new economy. Renewed attempts to replicate the supposedly flexible labour markets of the US, the promotion of venture capital along US lines and the imitation of US corporate structures testified to the irrational exuberance that seized European leaderships at both EU and member state level.

Yet the lessons Europeans might learn from US monetary policy are ignored. The status and objectives of the Federal Reserve system already offer an interesting contrast to those of the ECB, insouciantly reaffirmed in the draft constitutional treaty. In the US the Federal Reserve is just one government agency among others, subordinated to the will of Congress. Its purpose is to "maintain long-run growth of the monetary and credit aggregates commensurate with the economy's long-run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates". The contrast between the ECB and the Federal Reserve has deep implications for macroeconomic policies. In the US these do not neglect the question of price stability, but they are equally concerned about levels of production and employment. In the face of persistent recession or rising unemployment, macroeconomic instruments are used to stimulate activity: the Reagan budgetary stimulus of the early 80s; interest rate cuts in the 90s; the huge tax cuts of the Bush presidency. These policies are to be criticised, but they have resulted in rates of activity and employment superior to those in the EU over more than 20 years.

The same applies to social policy: one might even suggest that economic growth is part of the US social model, or that growth is a substitute for social policies. Americans might live and die by the market, but at least they tend to insist that the market should function; short recessions to promote stability might be acceptable, but persistent stagnation in labour markets provokes electoral sanction. A consideration of US experience suggests the double irresponsibility of social policy-makers in contemporary Europe: there is continuous pressure to erode unemployment indemnities and to restrict the rights of the unemployed; but no macroeconomic measures are ever taken to provide employment.

Persistent refusal of the British

It would be hard to find a political question on which the British are more united than their rejection of the euro. Even among the minority strongly committed to European construction, almost nobody argues for British participation in the monetary union. A simple comparison of macroeconomic performance between Britain and the eurozone is enough. The current macroeconomic regime in

Britain is seen as much more flexible and pragmatic than that in the eurozone, in both budgetary and monetary policy. The commission has often criticised the British government for violating the norms of the stability pact; but persistently high unemployment in France, Italy and Germany convinces the British that it is better to be outside the monetary union and not be bound by these norms.

The absence of the British from the eurozone is a problem for the monetary union because it means that Britain's large, liquid financial markets make only limited use of the euro. The autonomy of any monetary system today depends to a large extent on the scale and efficiency of its financial system. The huge expansion of the eurozone's financial scale that would follow British participation would make it easier to conduct European monetary policy and counteract or offset the impact of outside disturbances for instance of changes in US policy. If leaders in the eurozone were concerned with the future of the monetary union, they would be working hard to revise the procedures and the substantive decisions of the ECB in ways that would promote employment and economic activity.

The long period of preparation between the Maastricht treaty in 1992 and the introduction of the euro in 1999 was very damaging for several EU economies and for the eurozone as a whole: the arbitrary convergence targets for public finance, interest rates and exchange rates led to generally restrictive macroeconomic policies and rising unemployment. The logic of this ordeal was never clear; it amounted to the painful stabilisation of currencies destined to be withdrawn from circulation. The treatment of new member states is even more illogical. Unlike the French franc or the German mark, absorbed into the euro by way of the ecu, such currencies as the Polish zloty will disappear. And the total monetary weight of the new member states is so small that their economic circumstances can hardly influence that of the eurozone when they do finally join the union.

In fact the technical integration of short-term credit markets that would be required for their participation in the monetary union has already been achieved. Nevertheless a lengthy period of tutelage is being imposed on these countries, as are the same arbitrary targets for inflation rates, exchange rates and public finance. Membership of the monetary union must only be open to those who can display the requisite macroeconomic masochism. At the same time the substantive problem of monetary integration in the new member states, to establish conversion rates to the euro that promote high levels of exports and employment, is neglected.

Launched in 1999 at a exchange rate of about $1.16, the euro depreciated to about 82 cents by 2001 as capital outflows related to the stock market bubble stimulated the dollar. Subsequently, the collapse of the US boom, amid major corporate scandals, pushed the dollar down and the euro up to new highs. In the world economy, growth and development are just as important as price stability and budgetary equilibrium in determining the exchange rate. The weaker dollar tended to insulate Europe from external disturbances, such as a rising oil prices and to widen the scope for a significant expansion in employment and activity.

Investors around the world would be enthusiastic to hold eurozone assets. The failure to use this opportunity is costly. Continuing stagnation and the masochistic obsession with *les grands équilibres* are now working to weaken the euro, as there are fewer new European assets and less reason to participate in the European economies.

As it was conceived almost 40 years go, monetary union in Europe was a radical and optimistic project: a common currency was seen as lifting constraints, above all those resulting from dollar supremacy. Today the realisation of this project in a conservative, dogmatic and anti-democratic form is a source of constraints, a self-imposed siege of the eurozone economies - above all of

Germany, the paralysed giant of the EU. If the rejection of the constitutional treaty helps to question the macroeconomic regime, it will be a positive development in European construction.

Translations >> >


Monde diplomatique

Korean blues

United States: the slide to disorder

- *

More by John Grahl

(1) The “ Lisbon strategy”, adopted at the European council meeting of March 2000, aimed to make the EU the world’s most dynamic and competitive economy.

(2) *Beyond Lisbon: Economic and Social Policy Orientations and Constitutional Cornerstones for the European Social Model*, Euromemorandum, 2004.

(3) *Beyond Lisbon*, op cit.

- ✪ **LMD around the world**

  Le Monde diplomatique, originally published in French, has editions in 25 other languages